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Social Responsibility of Global Governance Institutions

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1. Preface

1.1. Objective and Key Issues

The objective of this paper is to describe and assess the role of the European Union in determining the outcomes of the national economic policy in Lithuania and other selected East European countries. The importance of this topic in the contemporary period of political and economic reforms in this region is apparent, as the European Union frequently plays a very far-reaching role in determining national policy outcomes. The questions why the European Union sometimes imposes unsound policy demands and how the national authorities of the transitional countries may overturn the unwanted results of the policies recommended by the European Union remain open, along with the question how these policies and the national responses to these policies are likely to change after Lithuania accedes the European Union. The topic is also particularly interesting at this time, when Lithuania and other East European accession countries are receiving unprecedented amounts of material support from the European Union. Whether the national government is free to use these resources, what is the role of the European Commission in designing the allocation strategies and how a decision making on these funds is organized are very interesting questions asked by the decision makers themselves, the societal organizations, the policy analysts, and the society in general. Indeed, only by understanding what causes or may cause a potential policy failure in implementing these aid programmes may we design viable recommendations on how to overcome this policy failure.

Several aspects of the issue are analysed in this paper, namely: i) whether the EU policies with respect to Lithuania and other East European countries always produce positive results, or they may also result in negative consequences; ii) if negative consequences are likely - why the EU is not able to formulate more sound policies and why the national governments are not able to resist the policy advice that is likely to cause such negative consequences. The presumption of the paper is that the role of the EU in shaping the national policies of the transitional countries is sometimes biased; it may be prejudiced by a lack of expertise within the EU, a cumbersome bureaucratic procedure within the EU, that makes an organization's decision economically unsound, or the defense of some member states' interests at the cost of the others. These and other reasons may be capable of distorting EU's policy performance and, providing that a recipient of policy demands is not able to refute the unsound recommendation, cause an economic damage.

However, the paper is not specifically focused on an economic damage as a policy outcome (this would be an exceptional case of the negative influence of the EU), but primarily on the decreased efficiency and rationale of the economic policy as an outcome of the EU's role in the national policy making. By invoking concrete empirical examples from Lithuania and other countries of Eastern Europe, the paper is intended to demonstrate that the outcome of some EU' policy advice or aid packages could have been better if the national authorities did not follow EU's recommendations or demands on which policies to implement or how to use the allocated funds.

While the paper includes empirical examples of the negative influence of the EU, it is not intended to assert that the existence of the EU is by itself negative, or that all aid or actions taken by the EU should be viewed as negative. It is very important to realize that in many cases the existence of the policy pressures from the EU enabled the national governments to overcome their own inefficient policy approaches, to speed up progressive reforms. This positive impact of the European Union is widely acknowledged and appreciated in the paper. At the same time, however, the paper is aimed at analyzing the selected cases of both positive and negative influence, finding the causes of such an influence, and recommending the policy solutions for the national governments on how to overcome the temptation to unconditionally submit to the EU's demands in cases where there may be a lot of space for negotiation.

Thus the main issue of the paper is the social responsibility of the European Union, as reflected in its policy advice or in its aid or lending policy (official or unofficial), as well as the response of the national governments to the EU's demands.

The primary objective of this paper is to present the empirical data and make conclusions on the influence of the EU on the domestic policy process in the transitional economies, primarily in Lithuania. The paper is not intended to contribute to the development of the institutional behavior theories.

1.2. Theoretical Framework

The issue of the efficiency of policy making at both international and national level may be analyzed from several theoretical perspectives. However, the practical usage of this paper consists in its attempt to explain the behaviors of single civil servants on both sides rather than the behavior of the organization itself. The question why the European Union tries to negotiate for better conditions to be applied to the consultancy firms based in the EU or requires to close old nuclear power plants hardly require a specific explanation. Quite a lot of literature already exists on these topics. The much more interesting question is why and how low and medium ranked officials within the European Union are able to almost dictate policy solutions in the framework of the granted loans or aid packages and why the national civil servants tend to submit to these demands, as well as under which circumstances the influence of the European Commission's employees may increase or decrease. These are the cases when a national administration could well be able to negotiate better policy options, contrary to the cases when the negotiation is hardly possible.[1]

Thus the main focus of this research tends to emphasize the behavior of a stakeholder in the policy making process as a factor predetermining a policy outcome. The sum of the influences of various stakeholders produces a certain result which may be either to submit to the European Commission's demand or to negotiate (sometimes to reject) these demands. Likewise, within European Commission's structure, the sum of the influences of various stakeholders causes one or another position to be recommended to a member state. Thus a suitable framework of explanation of policy outcomes is modern institutional economics which asserts the importance of the individual actions in the policy making process and the imperfect rationality of the decision makers, hampered by high transaction costs. The identification of the decision maker's or stakeholder's position, and the analysis and reasons of such a position is the key metholdological objective of the paper. The paper is intended to show that the chosen theoretical framework is suitable for the purposes of this research, but it is not intended to check the validity of any alternative theoretical explanation.

For the purposes of the analysis, the stakeholders shall be divided into several categories: the civil servants directly in charge of the policy in question, the senior decision makers within the ministries, the politicians, the interest groups, the media, the society, and the representatives of the European Commission. The position of each of these actors in seeking one or another policy outcome shall be outlined and compared with the European Commission's recommendation or demand. The interaction of various influences and the inevitability of transaction costs limiting the availability of information for decision makers shall be considered the key factors determining the national policy outcome. Likewise, the policy recommendations shall be related to balancing the influences and the methodologies for more efficient communication strategies able to diminish the transaction costs in decision making.

1.3. Sequence of the Paper

The paper is divided into several sections.

Section 2 is focused on the theoretical foundations of the problems to be analyzed in this research. The writings on the policy efficiency within the governmental organization and on its social responsibility shall be quoted, the theoretical framework of the analysis – the Modern Institutional Economics – shall be justified.

Section 3 shall be focused on the presentation of the empirical cases of the European Commission's influence on the national policy making and on the responses of various domestic policy making actors to this influence. The selected cases shall demonstrate that the unjustified demands of the European Union may be frequently overcome, but the reasons of their acceptance rest with the lack of information by the decision makers, the undue influence of various interest groups, and the vulnerability of civil servants directly in charge of the influenced policy area.

Section 4 shall be dedicated to the conclusions and policy recommendations.

2. Social Responsibility in Governmental Action: Theoretical Foundations

There is a lot of literature on the issue of the rationality of decision – making. To mention just a few findings, Kickert, Klijn and Koppenjan distinguish three steering models: conventional, multi-actor, and network based. According to them, the *conventional model* focuses on the relation between the agent and objects of steering and indicates that failure is a result of ineffective steering instruments, resistance from implementing bodies, lack of information, lack of control, incorrect assumptions on the causal relationships between means and ends. Thus this model suggests that policy may be improved by clarifying policy objectives, reducing the number of participants in decision making, increased monitoring and control. The *multi actor model* suggests that the failure may arise when the government does not provide sufficient information for local actors, both private and public. Thus the major improvement, which can be made, is more local discretion. The model is, however, criticized for inconsistency – while local actors are expected to be more autonomous, they are supposed to get more attention from the central government. Finally, the *network model* is based on the networks of actors, none of which possesses the right to determine policy outcome. Therefore, interaction is necessary, and a policy failure is believed to originate from the lack of collective action [2].

The complete autonomy of the state is not seen as a good solution and pressures from the interest groups are recognized to be of great significance in determining policy goals, if the network approach is taken as the basis. However, while in case of complete government's autonomy the major reason of policy failure may be the lack of qualifications, information, or too cumbersome procedures, in case of 'embedded autonomy' (network based approach), one of the key issues (besides others) becomes whether the civil servants are able to resist tendencies of self-interest [3] Evans, referring to Weber, says that the state is only able to regulate economy effectively if the bureaucrats see corporate (societal) goals as best matching their personal self-interest [4]. This match can be achieved, according to Evans, by introducing competitive examinations and

the system of promotion based on merit, creation of the feeling of work prestige. In some cases, as Evans suggests, islands of efficiency with all these features may be created to manage vitally important sectors of economy, if it appears to be impossible to follow such principles in the entire civil service.
However, even if there are all the mentioned features, does it mean that the civil servants shall be able to depart from their self-interest? As Moe suggests, this will still not happen. According to him, "…democratic governance gives rise to two major forces that cause the structure of public bureaucracy to depart from technical rationality. Firstly, those currently in a position to exercise public authority often face uncertainty about their own grip on political power in the years ahead, and this prompts them to form structures that insulate their achievement from politics. Secondly, opponents also have a say in structural design and, to the degree they do, impose structures that subvert effective performance and enhance their own control" [4]. These and other factors still create instability, and the private sector's role in defining policy objectives (or simply speaking – rent seeking behaviour of both civil servants, private consultants, interest groups, etc., may increase).

Moe thinks that all governmental actors are primarily concerned with their own problems and pursue their own interests. Politicians are interested in re-election and therefore try to get as much funds as possible for their districts, civil servants are interested in maintaining control over certain activities even if this is not an efficient approach, in order to maintain their jobs. Finally, there being little certainty about the future of public agencies, each civil servant and politician may be willing to ingratiate himself with the private structures, in order to get benefits after some problem occurs in his career. Issues of corruption and bribery should also be taken into consideration, especially when civil service work is badly paid.

Generally, however, if this approach is followed, not only the politicians and civil servants, but also the interest groups that have a stake in decision making are likely to promote self-interested approaches to policies, especially when material allocations are on the agenda. In this regard, policymaking may be regarded 'a clash of personal interests'.

The Modern Institutional Economics also takes the point of view that an individual within a public organization is to seek his own interests. According to Furubotn and Richter, the modern institutional economics asserts methodological individualism and individual rationality. The modern institutional economics, according to the authors, presumes an entirely new role of individual decision makers. People are different and have different goals, objectives, rationale, ideas. Thus the organization per se is no longer perceived as the main focus of the analysis. Rather the views and behaviours of the individual actors give the raise to the phenomena being studied.

While the individual rationality is accepted as one of the determinants of the policy outcome, two trends may be distinguished – one taken by the traditional neoclassical view asserting perfect individual rationality and another taken by the modern institutional economics – imperfect individual rationality, presuming the incompleteness of the decision makers' knowledge and information. The latter trend suggests that a transaction cost in the policy making process may be too high to make a decision maker "completely informed" and thus an individual often makes his choice without a sufficient rationality.

What do we gain or lose by applying the framework of a personal interest of the decision makers and the transaction costs as a factor influencing a personal choice, rather than any alternative frameworks? Firstly, this paper is specifically intended to analyse the policy influence of European Commission that arises from the actions of single employees or their groups rather than the entire organizations. This does not mean that problems of social responsibility or policy dependency do not arise in inter-institutional or inter-governmental context. Indeed some of the cases, such as the EU demand to close nuclear power plants in the accession countries, or to accept certain specific provisions of the Europe Agreements influencing the trade policy make up an institutional and hardly a personal stance. These cases could not be analysed in terms of actors' personal interests, because actors would be too many. These cases are also not suitable for the analysis because no valuable policy recommendations could emerge from their investigation – an accession country would be able to rebuff any attempts to demand unwanted policy solutions by building international alliances, consolidating the domestic policy agendas, but not by taking actions at the level of the domestic civil service. As a result, such cases represent a set of "ultimate truths", i.e. that a stronger state can press on a weaker one, etc., without a lot of ways out. However, the phenomenon that is analysed in this paper is based on the European Commission employee's or unit's and the national government's, unit's or civil servant's dependency (interconnection). These cases illustrate how the European Commission may exercise a due or undue influence on the domestic policy agenda on quite strategic economic issues by means of informal pressure, by presenting personal rather than the institutional demands and views. As it is argued in this paper, such a sort of influence is great and the decisions that are at stake in such cases can well be negotiated – the failure to do so rests rather with the inefficiency in the domestic organization of the civil service, the lack of information by the decision makers, the misunderstanding of what is good or bad for the country, and ultimately – the interplay of interests of those who do or do not understand, do or do not want a certain policy solution. In this field, there is a lot of space for designing independent policy recommendations.

3. Social Responsibility in Governmental Action: Practical Application of Theoretical Presumptions

3.1. Social Responsibility in Governmental Action – the Case of Regional Development [6]

In most cases, the discussion on decentralization of the process of development does not go further than the acknowledgement that regions should (or could) promote territorial competitiveness, have a voice in national investment allocation or that they should have increased fiscal powers or investment funds at their own disposition [7]. However, in Eastern Europe, there has recently [8] been a wave of attempts to create legal frameworks, which could have led to the allocation of very significant, if not all [9] amounts of central government investment funds for regional policy - possibly, also with a strong involvement of regional governments in investment management. Such a scheme was advocated by the European Commission's DG 'Enlargement' and attempted to implement in late 1990s, in the framework of accession countries' preparations for the EU Structural Funds. While this toughest form of the regionalized approach failed in late 2000 – early 2001 (in those countries, in which it was adopted), the key issue for the analysts remains how could such a concept appear at all and how could it be theoretically justified. This question is intriguing, since such a degree of decentralization in investment allocation and management finds little, if any support either in general economic theory or in regional development theory. Neither does it find any support in the policies of either EU institutions or the EU member states, or even in the planning traditions of the very accession countries.

The decision to carry out the Lithuania's preparations for the EU structural funds on the regional (rather than national) basis, as well as the decision to allocate the 14,000,000 euro of the EU PHARE 2000 "Economic and Social Cohesion" funds to the four poorest regions of Lithuania can be considered a major policy failure of both the European Commission services that offered such an unsound approach and strictly enforced it [10], the specific civil servants within the European Commission services who advocated this approach, and the Lithuanian government that accepted this approach [11]

In the sub-sections below, the information shall be presented that shall illustrate why these decisions should be considered a policy failure and what caused the appearance of such policies.

3.1.1. What is the EU regional policy

The European Union's regional policy represents a set of rule governing the allocation and management of the EU structural funds – the major financial instruments to help the lagging regions (or in some cases – the whole member states) of the European Union to overcome their social and economic problems. For the 2000-2006 period, regional policy is providing support for the following objectives:

Objective 1 – the Development of the least favoured regions.

Objective 2 - Conversion of regions facing difficulties.

Objective 3 – Supporting the adaptation and modernization of policies and systems of education, training, and employment [12]

The funds are allocated on the basis of the relevant EU regulations and the 7-year national development plans or single programming documents. For the period of 2000-2006, the total allocations for "Objective I" were foreseen to be 135,9 million euro, for "Objective II" – 22,5 billion euro, for "Objective III" – 24,05 billion euro, for the total of 195 billion [13]

The East European countries shall be eligible for the Structural Funds only upon accession. However, from late 2001 they have been eligible for the structural pre-accession aid – ISPA, SAPARD and PHARE Economic and Social Cohesion. These instruments combined give up to 2-5% of the total national budget already now [14] and are supposed to be a major source of the country's investment allocations. They are also supposed to be the prototypes of the EU Structural Funds for the accession countries that will not only provide for them immediate material resources, but also help prepare necessary procedures and administrative capacities for managing the Structural Funds when the countries accede [15].

The European Union's regional policy, the major instrument of which is the EU Structural Funds and in case of the accession countries – the pre-accession instruments, is emphasizing a region as a major territorial unit, in which the policy should be implemented. Therefore, the whole sector of Structural Funds is usually referred to as 'Regional policy and coordination of structural instruments'. However, the EU regulations tend to be vague on the issue of what a region is, concentrating instead on the definitions of the NUTS (the nomenclature of statistical territorial units), under which a territory can be assigned NUTS I, II, III, IV or other levels, depending on certain characteristics which are beyond the scope of this analysis.

Very importantly, it is the NUTS II region which is eligible for support under 'Objective I' of the EU Structural Funds – the objective which presumes the assistance to the lagging regions [16] and for which over a half of all funds are earmarked. Although NUTS III regions are the major territorial units to receive assistance under Objective III – assistance to areas in industrial decline – the amounts earmarked for this objective are significantly lower. On the other hand, in the form, in which this objective is interpreted by the EU institutions, very few East European countries may be recognized having these kinds of problems.

While in large countries the whole country is usually a NUTS I unit, small countries, such as Lithuania, Latvia, or Estonia, are considered NUTS II regions and are eligible for the 'Objective I' of the EU structural support in their entirety. In this regard, the whole country may be called a 'region'. But in this case the EU structural support is not the support to country's regional development, but it is rather the support to its sector development of the national economy, which makes a major difference for the creation of adequate policy frameworks. Even in larger member states or accession countries, in which several NUTS II regions may exist, all of them (i.e. de facto the whole country) may receive EU structural aid under Objective I, if GDP per capita in those regions is less than 75% of EU average. Of course, even then the policy may be called 'regional', inasmuch as it achieves the reduction of development inequalities between regions of the EU, but in this case an entire country or even several countries can be called a 'region' [17].

The major question remains what should be the role of local and regional authorities in both cases? Should it be different in small and large countries? The EU rules are perfectly clear – they promote the principle of partnership, requiring that all tiers of authority and social partners be involved in all stages of investment decision making (i.e. planning, implementation, etc). [18] However, they do not imply that regions should be invested with any direct managerial or planning responsibilities for the EU Structural Funds.

3.1.2. The Decision

The decision that is to be analysed consists of the several parts: i) In early 1999, the European Commission's DG "Enlargement", despite the dissatisfaction of other sectoral Directorates General of the European Commission, adopted the policy of accession countries' preparations for the European Regional Development Fund and the European Social Fund via the development and simulation of planning procedures in the PHARE 2000 ESC initiative, on the basis of regional development plans for single regions. It was supposed that, by introducing the planning and management arrangements for this initiative, the accession countries shall simulate the procedures necessary for the EU Structural Funds and when the accession countries ultimately accede the EU, they shall already have all the procedural framework in place. The key problem was that in case of the EU structural funds, the "Objective I" countries, such as Lithuania, Latvia, Estonia and some others were required to draft national and not regional development plans, and funds were to be allocated for the country as a whole, not for a single region. ii) As a rule, the accession country was allowed to choose one or more regions, in which all the aid of the PHARE 2000 ESC has to be concentrated. However, while at the beginning the DG "Enlargement" asserted that the funds may be used for many purposes (similar to those applied to the EU structural funds), subsequently it changed its position, allowing only measures of vocational training and business consultancy to be funded. This created major absorption problems, as in the case of Lithuania the selected regions had almost no demand for these services, being the most agricultural regions of the country [19] iii) The DG "Enlargement" position fluctuated very frequently regarding almost all aspects of planning and management arrangements. While in 1999-2000 the regionalized approach was advocated, in 2001, after the replacement of the Head of Unit in charge of the accession countries, the position was changed to the national approach, as it has to be under the Structural Funds' rules. Moreover, in 1999-2000, the position regarding which documents were to be drafted for receiving the PHARE 2000 ESC aid was fluctuating extremely frequently. With regard to all three points raised above, the national administration of Lithuania and many other accession countries was upholding the controversial rulings of middle-level EU officials, even though they were sometimes contradicting each other, or were apparently economically unsound.

As a result, different East European countries have taken a similar approach to the preparations for the EU structural funds [20]. In Hungary, 7 regions in charge of just planning and management of (presumably) the PHARE ESC funds were set up [21], of which 3 shall be eligible for PHARE aid; in Poland 5 existing administrative regions (out of 16) were chosen for PHARE ESC assistance, in the Slovak Republic the whole PHARE ESC funds were focused on only one NUTS II region in East Slovakia, in Latvia – 2 lagging, non-administrative regions were chosen, and in Lithuania 4 existing counties – NUTS III units - (out of 10) were selected for PHARE ESC support.

The issue of regionalization of the funds was understood differently, but some tendencies of their regionalization can be seen in almost all accession countries. In the Czech Republic, the Regional Development Act was passed in 2000, that addressed not only issues of national regional development policy, but also of the management of the EU structural aid. In Romania, "In 1998-1999, … a complex institutional framework was created that was meant to attain regional policy goals…, in observance of the principles and procedures, according to which allocation and management of the Structural Funds is made in the EU member states…". [22] In Lithuania, the Regional Development Act was adopted in middle 2000 that, in fact, associated the national policy of regional development with the EU structural funds. Interestingly, it indicated that each single project funded from the EU structural aid, even if it was indivisible and located in several regions, as main roads, highways, etc., had to get the approval of the Regional Development Council of EACH region, in which it was to be implemented – this is besides all other mechanisms of approval typically applied to public investment projects, that were also to be observed. In Hungary, the Regional Development Act also addressed the issue of EU funds, although to a lesser extent.

In all accession countries, in which such regionalization was attempted in 1998-early 2000, the created legal and institutional structures began to be dismantled in late 2000-2002. In Latvia, Lithuania, Hungary the responsibility for the EU structural aid was moved from the ministries in charge of regional development to the ministries in charge of national economy or finance. In Lithuania, the Regional Development Act was never applied and is now being amended. In Hungary, the Cabinet of Ministers adopted a decision to provide the remaining 4 regions (non-recipients of PHARE ESC aid) with the aid of corresponding size from the national sources. In many accession countries, the focus of PHARE ESC was changed – with the approval of the new authorities of DG 'Enlargement'. Instead of just business consultancy and vocational training, more flexibility was allowed – which, as I can argue, saved the program from failure. The very European Commission services (DG 'Enlargement' that has played a major role in defining EU stance towards the accession countries) recognised that its previous approach to programming PHARE ESC was in contradiction with the Structural Funds' rules and was a policy failure [23] The failure was unofficially attributed to the low competence of single persons in the EC services (both the EC services and the national officials referred to single EU officers of DG 'Enlargement').

Was there any economic harm done by this regionalization? Fortunately, not a considerable one, but this is mainly because the provisions regulating PHARE ESC aid were changed before the actual allocations began. Had this not been the case, problems could have been great. According to the unofficial forecasts of the Regional Policy Coordination Unit of the Lithuanian Ministry of Public Administration Reforms and Local Authorities (at that time – the institution in charge of regional development), only 10-15% of aid would have been absorbed if initial rules were applied [24], and it would have taken at least 12-18 months (possibly up to 2-3 years) for the Structural Funds' planning documents to be approved if procedures of the Regional Development Act were applied. That would make it impossible to receive any EU funds, since its deadlines do not afford such a lengthy period of coordination [25] The actual damage was, however, moral and institutional. In many accession countries, the civil servants in charge of the EU funds were demoralised, since they had to do things that contradicted the logic. Also structures were created [26] and laws passed in 1998-1999 (early 2000) that had to be changed immediately afterwards.

3.1.3. Why a Policy Failure – a Theoretical Justification from the Regional Development Theories and EU structural funds' rules

Besides the direct conflict with the EU regional policy rules, the decisions recommended by the DG "Enlargement" in 1999-2000 and submissively followed by the majority of the accession countries' governments also lack an economic justification. These decisions urged the national governments to concentrate funds in the most lagging regions. However, almost all modern regional development theories have argued that the spatial concentration of economic activity is inevitable and that the development gap between rich and poor areas, once formed, tends to further increase. Thus investment in the lagging areas is more expensive and can hardly be justifiable, especially in cases when the nation as a whole experiences serious developmental problems.

According to the theoretical model of growth poles, formulated by Perroux in the 1950s, "…economic space as an abstract field of forces leads to the notion of a vector of economic forces, and hence to the concept of growth poles." [27]. According to Lasuen, for Perroux and his followers, development has been attributed to the disappearance of old industries and the appearance of new ones, via the process of innovations. Since the new industries offer a more innovative product and face less competition, they may increase their profits and create preconditions for further growth. [28]

This, in fact, means that investment should also be preferably concentrated in richer regions. For example, as Hirschman argues [29], building infrastructure in under developed regions is too expensive and it would therefore be better to promote 'growth poles', hoping that they will trickle down, thereby causing positive effects on development of lagging regions. As Armstrong and Taylor argue, while regional development policy and support to lagging regions may be beneficial for several reasons, such as avoidance of social tensions, inflationary pressures caused by industrial over concentration, urban congestion and others, it is also apparent that industries in 'growth poles' benefit from agglomeration and localization economies. The first one is caused by benefits arising from the concentration of infrastructure, business services, and skilled labour force around areas of concentration of economic activity, and the other one – by the possibility to exchange information, to adopt innovations, to get personnel with specific skills, and by other benefits arising from the concentration of businesses with similar profiles. [30].

Thus, as it seems, the growth of 'growth poles' is often cumulative, i.e. the gap between the core and the periphery demonstrates a tendency to increase, and this is exactly what is formulated in the theoretical writings on circular and cumulative causation. Contrary to the neoclassical thought, which presumes the existence of equilibrium caused by the free market forces, the theory of circular and cumulative causation asserts that "[free market] is more likely to generate a process of cumulative causation that will carry it (disequilibrium) further and further from equilibrium". [31] Domar's knife-edge theory formulated in 1946, Harrod's book 'Towards a Dynamic Economics' published in 1948, and Myrdal's 'Economic Theory and Under Developed Regions' published in 1957 are all dedicated to proving this assumption. While Domar's theory presumes that growth requires investment (which is frequently flowing into richer regions rather than the lagging ones) and the failure to invest at the same percentage rate as the growth of national income results in unemployment, Harrod's cumulative causation anticipates that investment decisions are often based on the expected rate of growth, and the expectations are likely to be better in richer areas. [32]. This only strengthens the Perroux's view that development is always polarized, which leads to dominance and dependence [33.]

A number of other theoretical presumptions elaborate on single aspects of growth causes. For example, Everett Hagen's gradualism presumes that "…economic development takes place where the socio – cultural conditions are appropriate for it and cannot take place otherwise" [34] which, in fact, means that more traditional societies are unlikely to catch up with the pace of development, and while this is true of developed vs. developing countries, why couldn't it be true of developed vs. developing regions of the same country? The theory of instant entrepreneurship presumes that development results may depend on the entrepreneurs' initiative, which, besides other factors, is constrained by the lack of knowledge. Knowledge and information are, once again, better available in 'growth poles' rather than periphery. Ohlin's theory of interregional trade indicates that "…different regions have varying endowments of natural and human resources, and because of varying economic histories, they also have different stocks of plant and equipment in existence and varying capacities to save and invest." [35] In the absence of perfect mobility of factors of production, as Ohlin suggests, the differences in the pace of development may be conservated for quite a long period of time.

Is there then any hope for the periphery? Should it resist tendencies of cumulative growth in the core areas? According to John Friedman, not necessarily so. As he argues, core regions tend to organize the dependence of their peripheries through systems of supply, market and administrative areas. They transmit impulses of innovation to the peripheries, and, up to a certain extent, the core region's growth may have positive effects on the entire spatial area. Generally, however, the issue of geographical polarization remains a problem (primarily a social one), despite the fact that cumulative growth of the core brings maximum benefit to the country as a whole. Issues of unequal income distribution, absence of mobility of factors of production may not allow the periphery to benefit from the development results. [36] As a result, regional policy may become necessary, and Lasuen makes a point, which represents typical fluctuations between the necessity to support the periphery and to invest in the core, by saying that "…it could well pay to have a two pronged strategy. On the one hand, there should be an effort to foster the fastest possible transformation of the structure of the leading business firms…" [37] but on the other hand, there should be efforts to stimulate backward regions. The same point is reasserted by Armstrong and Taylor, as already mentioned above. They argue that regional policy is necessary, despite theoretical findings that it may cause a net lose for the country as a whole. [38] While they probably primarily meant richer countries, such as the UK, the same may be true of developing or transitional economies.

Importantly, even if the advantages of regional policy may be too few, the political (rather than economic) logic will still disallow to ignore it. According to Rodwin, "…it is easier politically to advocate dispersal and then allocate resources otherwise (or allow such allocations to occur)…" [39] because geographically elected Members of Parliament are likely to argue for the regional concentration of funds even if there is overwhelming evidence on the detrimental consequences of such an approach. Moreover, irrespective of what the particular Members of Parliament think, it is politically impossible, in a democratic society, to assert that the pro-poor policies are unnecessary, due to expected negative reaction from under developed regions (which, in some cases, may have more residents and voters than the cherishing ones).

Armstrong and Taylor also tend to associate regional development policy with social rather than economic rationale. As it is possible to imply from the text of their book 'Regional Economics and Policy' (though this is my strictly personal interpretation), the promotion of industries' competitiveness or other purely economic goals may well be valid for regional policy, but they can always be juxtaposed with the expected return from public investment alternatives and, as a result, regional policy shall be confined in scope. However, social goals do not need such a comparison; on the contrary, they need pervasive assistance based on the criteria of poverty or social exclusion. As Armstrong and Taylor suggest, it then becomes even necessary to justify why regional policy should not be based on social objectives, in order to legitimately justify why social spending is not so pervasive in regional development (indeed, since defiance of poverty cannot be rejected by a democratic government, this is a major concern for the administrations wishing to promote economic growth)! In this regard, they assert that such a justification can be offered by indicating that social problems (primarily social exclusion) are the concern of national, not regional policy.[40].

All these considerations cause the necessity to define appropriate policies for countries, which face a severe scarcity of resources, a category that Eastern Europe still belongs to. While such policies may be very complex, Armstrong and Taylor argue that they may be divided into two possible categories: measures based on market approach and measures based on interventionist approach. The market-based approach presumes that problems were caused by market inefficiencies and thus the best remedy is deregulation, minimal expenditure for regional policy, and some tax incentives to improve efficiency. The interventionist approach is focused on the reverse assumption – that problems were caused by the lack of regulation, and the problems should be resolved by inducing inward investment, stimulating indigenous growth, regenerating high unemployment areas through public investment in infrastructure. [41] [42] However, while the market based approach, if it is chosen, can be relatively inexpensive, the interventionist one would require heavy funding which East European. countries could hardly afford. At the same time, it is the interventionist approach, which is defended in most of the cases, since it is held that free market can cause the outflow of the young and skilled labour force from lagging regions, thereby further exacerbating the regional development problems. It may also conservate the development gaps for too long a time or, as some would argue, they are unlikely to reduce interregional disparities at all, irrespective of the time factor.

Overall, there is the agreement among the theorists that regional development is a social rather than the economic phenomenon. Regional development policy of the central government becomes necessary to diminish social tensions among the rich and poor regions, but the overall social, economic, or financial returns for the nation as a whole are usually smaller (and may be considerably smaller in case of investment in the lagging regions). Moreover, there is no justification for "over-supplying" governmental subsidies, business and training services in the lagging regions, as in this case the projects become less efficient and the approach of business service and training companies - formalistic. As a result, the conclusion may be firmly established that there was no economic justification for the initial decision to allocate such significant amounts of aid for such narrowly defined areas in the most lagging regions of the country. This decision does not become more rational even if social considerations are taken into account.

3.1.4. The Actors and Outcomes

Let try to apply the analytical framework of this paper to the case. The following aspects must be taken into consideration:

1. Civil servants in charge of the funds were usually much worse remunerated than the PHARE local experts who are supposed to assist them. In Lithuania, the salaries between a civil servant and a PHARE assistant differed as much as 15-30 times in 1999-2001. Thus a PHARE local expert could have received up to 15 times more than Department Director and up to 30 times more than an Officer.

2. The EU Structural Funds' rules are very complicated. While there is comparatively little knowledge of integration in all East European societies, the problem of knowledge among politicians and senior executives is particularly acute in this field. Even though a lot of seminars and explanations were launched, it usually took up to 9 months for an employee directly working in a responsible administrative unit to perceive the whole complexity of these issues [43] – what can then be said of persons who only occasionally attended training sessions.

3. The selection to the civil service in East European countries was still predominantly based on unobjective factors, such as personal acquaintances etc. [44] The same is true of the system of promotions. As a result, the level of competence in units in charge of the EU funds suffered three times: as a result of complicated rules, due to the lack or outflow of personnel, and due to the lack of skills or willingness to acquire them.

4. The lack of knowledge in the whole society and between those influencing decision making, as well as – sometimes but not always – the lack of competence in the civil service units directly in charge of the EU funds, caused increased pressure from the politicians and interest groups to adopt decisions that are impossible to adopt under the EU rules[45], which was counter balanced (or sometimes exacerbated) by an increased pressure from the EU to follow its rules or their arbitrary interpretations without deviation. The gravity of the problem can be understood when realizing how much money is received and channelled! At the same time, civil servants often feared to report arising problems to the superior authorities and/or do surrender to unjustified demands of either the politicians or interest groups, or the very EC. Under the universal lack of knowledge and the huge stakes involved they had an increased chance to be themselves accused immediately, should the problem become known, of the lack of results or the inability to implement political decisions. [46] This problem was becoming particularly acute when civil servants directly in charge of the EU funds themselves had doubted competencies, since in this case the fear to be fired without a chance to find a new job added to the lack of ability to provide an adequate explanation or to justify a policy alternative. [47]

5. The very European Commission tended to fluctuate often, as the above-mentioned case of PHARE ESC demonstrates. While in many cases the EC introduced more discipline in East European public administrations and helped in taking effective solutions with less domestic resistance, the experience of dealing with DG 'Enlargement' in 1999-2000 demonstrates the contrary. The very Commission services offered an economically damaging approach. [48].

How were then various actors likely to respond to each others' actions in the field of EU investment planning in the light of the role of an individual decision maker? Interconnections between civil servants directly in charge of the EU funds, other civil servants, politicians, interest groups, media, and the EC can be taken as the basis. The author's own experience in the Lithuanian government, interviews and literature review suggest the presumptions made below.

Under the given circumstances, **civil servants in charge of the funds** were likely to maximize their benefits either by ignoring the existing problems and underreporting them in the hope that this will prolong their job security. This category of civil servants, however, was well aware that soon the system is going to collapse or problems become known and try to escape the governmental administration as soon as possible. [49] Even if they succeeded to overcome immediate problems, these were still very likely to arise after the each next change of political administration, since the newcomers were likely to blame the civil servants for the lack of results, without looking too much at the causes.

In 1999-2000, the Lithuanian Ministry of Public Administration Reforms and Local Authorities – the institution then in charge of the Structural Funds, shown no resistance to the 'regionalized' approach to managing PHARE ESC funds, even though it well understood the consequences. The gravity of the problems, such as the lack of capacity in the regions, the lack of absorption capacities for measures that were initially designed for funding under PHARE ESC, etc., was never reported to the politicians or senior executives. At the same time, all employees directly in charge of the EU funds voluntarily or forcibly left the governmental service in late 2000 – early 2001, mostly for PHARE consultancy Another phenomenon which is worth mentioning is that, irrespective of the problem at stake, an explanation on why a particular approach was taken most frequently referred to an oral or e-mail opinion of a certain EC services' official at the level of head of unit or below. [50]

Other civil servants, knowing little about the funds, but wishing to have a stake, tended to impose barriers on effective decision-making. This took a form of delaying the adoption of cabinet decrees, increased criticism. The same results followed even when 'other' civil servants did not want to have any stake in decision-making, but were simply unaware of the circumstances. These reactions flowed from either these civil servants' willingness to take over some part of responsibilities, to preclude the reduction in their functions as a result of increasing role of development planning for the EU funds, or from their genuine but wrong belief that they are doing the 'right thing' by associating the EU funds with the procedures or documents which they think are best.

In 1999-2000, there was no single draft legal act regulating EU structural aid in Lithuania, which could be submitted for Cabinet's approval without lengthy (at least 6 months) interministerial coordination – mainly because all initiatives were immediately vetoed by the Ministry of Environment, that supposed that the draft Master Plan should be the basis for the allocation of EU structural funds' investment. Other ministries, which tended to resist initiatives, included the Ministry of Economy (then in charge of the State Investment Program and some other sector development programs). The Ministry of Foreign Affairs – then the National Aid Coordinator – did not show any resistance, but played a major role in supporting ALL EC's initiatives, whether or not logically or economically grounded.

Politicians and interest groups tended to require immediate material results. In the absence or under the lack of knowledge, they tended to adopt decisions contrary to the EU rules, or tended to commission assignments that make no or little sense. Even those politicians who understood the whole complexity of issues tended to keep silence, there being little expectation that the colleagues will understand, or simply because it was against their rational interest. For example, if a Member of Parliament is well educated and understands the complexity of the EU funds, he/she may still be willing to argue for the concentration of funds in the lagging regions, just because his/her own constituency is in one of them. The same with the interest groups – there is no reason why they should seek economic efficiency for the country as a whole instead of maximising their own benefit by pressing for economically inefficient decisions. A particular part of the interest groups – development consultancies – tended to misuse, especially in 1999-2000, their influence on weak governmental services by suggesting and implementing, on behalf of the state, economically unfeasible solutions.

Examples of politicians' interests include their promises in the electoral constituencies to bring the Structural Funds to particular territories, expressions of dissatisfaction with slow pace of progress (a valid reason for which civil servants concerned may face charges even if they worked hard – simply because problems would rather be a result of too cumbersome procedures, the lack and outflow of personnel, etc). Interest groups tend to lobby for their solutions and a typical response of the government to such a lobbying is the involvement of civil servants in charge of the funds into lengthy discussions.

The media, while tending to be objective, expresses its self-interest in the failure to study in-depth the surrounding circumstances. Therefore, it tended to criticize harshly any intermediate failures of the national government, as well as frequently supported any, even insufficiently justified, criticism of the European Commission services on the results achieved.

The media in Lithuania had not expressed any noticeable criticism of the EU officials' suggestions, neither did it attempt to analyze these suggestions. However, any criticism by an EU official of the government's policy was usually widely presented and commented (usually the national authorities were blamed, at least in all cases of the Structural Funds).

Finally**, the European Commission services**, while trying not to meddle into internal affairs of East European countries, sometimes made (and could avoid making) suggestions and recommendations which were frequently (though not necessarily and not always) taken by the National authorities as a must – simply because then any resulting failures might be attached to the EC services rather than the national civil servants, which ensures a higher career security. In some cases, "recommendations" were, however, absolutely mandatory and any national civil servant trying to argue against was disfavored by the EU official and consequently by the national high level decision makers as well.

While the European Commission's role is generally very positive in the accession countries' development efforts, the above-presented case of PHARE ESC illustrates the contrary result. In no case does this mean that the paper's author is criticising the present approach of the EC services, which is, I think, rational.

In 1999-2000, it was the European Commission services which ordered a 'regional approach' to PHARE ESC planning, mandated the pre-selection of target regions for investment support, but then severely constrained the possible range of measures under the investment schemes, making it practically impossible to absorb PHARE ESC funds. Even more, it was DG 'Enlargement' whose representatives orally ruled, in early 2000, to empower regional authorities with managerial functions for PHARE ESC management, requiring to make county governments in Lithuania – institutions in charge primarily of agriculture – key players in funds' allocation, reporting, establishing priorities, etc. Once again, it was the EC services, which cardinally changed the approach in late 2000 – requiring (or rather recommending) to re-design the system for future PHARE ESC initiatives, making it more centralized.

How is self-interest reflected in all these actions? How did it determine the policy failure?

In case of civil servants, the personal interest was to preserve their career, to minimize their work load. This goal is easier to achieve when the superior authorities are not aware of problems, especially in cases when they are not expected to know the circumstances and are expected to apply punitive actions. The civil servants that are not directly in charge of the EU aid have a self-interest in increasing their institutional powers, participating in the process of planning and management, even though their participation may decrease efficiency of the policy making process. The politicians and interest groups can maximise their benefits by distributing promises of easy cash that later appear to be impossible to implement (something that civil servants can be blamed of). The media representatives can maximise their benefits by simply referring to opinions of EU officials, instead of analysing issues in detail (something they cannot do due to the lack of knowledge; their honoraria may, however, be received even without in-depth analysis). The European Commission's officials can also maximise their benefits by telling popular points of view in the public and restrictive ones – to the government officials in charge of the funds. This sort of diplomacy was, indeed, used in 1999-2000 and resulted in increased difficulties for the governmental employees to prove to their own bosses and to the public that a different position should be adopted than that publicly admitted by one or another EU official.

How are high transaction costs in policy making reflected in these actions? How did they determine a policy failure?

The lack of information on the rules of the EU structural funds and sometimes – the lack of knowledge in regional economics, made the decision makers unaware of the possible consequences of the decision. As a result, the EU official's suggestion was taken almost for granted due to higher reputation and knowledge that was usually attached to him. On the contrary, a national civil servant who tried to argue differently (if he tried, as cases in 1998-2000 were very rare) was almost without exception treated with suspicion. Thus the lack of information and unusually high costs of obtaining it distorted the perception of the policy makers and sometimes – also of the interest groups. Had the policy makers been aware of the EU structural funds' rules and the circumstances of the DG "Enlargement" – Lithuanian civil servants relationship [51], they would definitely not have adopted the Regional Development Act in the format which de facto precluded the absorption of the EU structural funds and was never applied in practice. Had the senior civil servants be aware of these rules and of the basic principles of the regional economic development, they would have probably tried to negotiate with the DG "Enlargement" rather than accept its PHARE support package unconditionally. Had the other ministries, those not in charge of the EU structural funds, known the EU structural funds' rules, they would not have argued for the solutions that were apparently impossible to implement, or at least they could have softened their position. Had the media been better informed, it could contribute to criticizing the EU position. Had the interest groups been better informed, they would probably better formulate their points of view, make them more professional, thereby avoiding a lot of unjustified policy demands. Indeed, this sector of policy has been characterized by the unusually high transaction costs (in terms of information), since Lithuania was at the very beginning of its preparations for the EU funds, no experience of knowledge existed, the rules have been very complicated and cumbersome, different rules applied to pre-accession aid and the future Structural Funds, and all these were incorrectly associated with the implementation of the national regional development policy. As a result, only a few civil servants directly in charge of the sector could have well realized what is happening and why.

3.1.5. The Analytical Conclusion

Since no economic development theory supports the policy attempts in question and there are no legal constraints that could have required its existence, the only logical conclusion can be made that the failure was caused by policy making constraints. The explanation is needed how these constraints affected the acceptance of the EU policy demands that were apparently irrational [52] and whether the preconditions that caused this acceptance have the potential of causing other policy problems.

The potential problem can be searched for either in individual actions, in which case the lack of knowledge and competence in specific (single) cases shall be the determinants of the policy failure, or in institutional constraints, in which case it shall be necessary to recognise that the knowledge and competence do exist, at least in some layers of the governmental administration, but they are constrained by institutional culture or the biased logic of decision making. In this paper a presumption is made that the scale of the problems and the possible consequences of regionalization of such great investment resources were known to the civil servants in charge of the funds' planning and management. [53] Thus it is more likely that the causes of the policy failure should be associated with the peculiarities of the policy making process and the behaviour of policy making institutions, as well as high transaction costs.

As it should be clear enough, the decisions on creating structures for the EU funds, incorrectly associating them exclusively with regional policy, as well as much confusion on what should be done and how to prepare for the EU funds, have not been based on economic considerations. Such economic considerations can hardly be found, especially in a view of regional development theories outlined above.

As it is seen from the analysis, it is not even legally possible for such a small country as Lithuania to deliberately and exclusively concentrate public investment in lagging (NUTS III) regions only, under the EU Structural Funds' rules, not to speak of economic logic. At this point we should recall that in Lithuania, under the PHARE ESC initiative – a supposed prototype of a major EU structural fund – it was exactly what happened! As for the other countries, their NUTS II regions have been smaller than the whole country's territory and the concentration of PHARE funds can be legally justifiable. However, these countries did not avoid huge confusions in the preparatory stage, including the role of various plans, the choice of eligible measures etc. Therefore, their policies, while more rational superficially, also suffered from the restrictions of political and interest groups' pressure and are recovering only now.

It can then be concluded that these policy decisions have been a policy failure of quite a large scale.

In a view of this theoretical and empirical background, a conclusion comes into mind that the system of European integration decision-making in the accession countries is insufficiently favorable to adopting effective decisions in this key sector of economic activity. Issues of the EU Structural Funds are 'foreign' to the policy-making systems in the region, and the systems are not adapted to the process of fair consideration, although substantial improvements happened in 2001-2003. The necessity for a governmental servant to rush about between so many different interest groups (or centres of power), most of which do not understand the essence of the problems, makes it more difficult to design adequate policies. Some of the problems were overcome in early 2000s, at least in Lithuania. The EC's approach became much more flexible and is based on partnership rather than dictation; the national authorities acquired more competence, and even politicians (special compliments to the present Lithuanian Minister of Finance and the Vice Minister of Interior) have shown a considerable interest in the issues – indeed, something unbelievable for the late 1990s. However, the problems of coordination, lack of work incentives in the civil service are not yet overcome.

The two key questions remain – whether it was the European Commission which is 'guilty' of the initial over regionalization in the late 1990s, or it were the national governmental services and their problems; and whether it was a self-interest of actors involved that predetermined a policy failure, or there were other factors as well.

An answer seems to be that the reality of national decision-making provided a good basis for unconditional acceptance of the EC's opinions. However, it should be noted that the central governments, in the absence of knowledge of the field by decision making actors, also possess a sort of exclusive right to present the EU policies in the light of their own interpretations, unless some more authoritative source – very likely the very EC – interprets differently. Therefore, the catalyser of the appearance of over regionalization in investment planning was the DG 'Enlargement's initial approach that could not have been overruled even by very rational arguments on the governments' side. While some East European countries might have demonstrated better abilities to bargain, Lithuania represents the case of 'absolute submission' to the EU officials' rulings.

As regards theoretical explanation, it seems that there is a sufficient evidence to assume that it was 'a collision of personal interests' and 'high transaction costs' that caused a policy failure. The given setting of interests settled due to various surrounding circumstances, such as the lack of knowledge or information and, possibly, the lack of strong and active national leadership able to support 'the right side'; the lack of such leadership was also a factor that allowed the interest groups and decision makers to lobby for economically irrational solutions, created disincentives for technocrats to report and solve problems. [54]

3.2. Social Responsibility in Governmental Action – the Other Selected Cases

3.2.1. What are the Policy Areas and How They Are Influenced

Besides issues of regional development & the EU structural funds, other areas, in which the European Commission plays a very significant role are the issues of financial control & public sector internal auditing, governance reform, agriculture, and a wide range of other issues. The influence of the European Commission on these sectors is exercised via the adoption of acquis communautuire by all the accession countries, and via various EU-sponsored aid programmes.

In case of acquis communautuire, an accession country frequently not only needs to adapt its national legislation to the EU standards, but frequently should also adhere to the interpretation that the European Commission's officials are attaching to one or another legal act. It is also noteworthy that, besides the mandatory part of acquis communautuire, there are a number of "soft law" instruments, such as recommendations, opinions, European Commission papers and publications that an accession country may be required to apply as well. Even if there is no "black letter law" or "soft law", the European Commission's officials may still require an accession country to take one or another policy action in order to increase the efficiency of public administration structures, to strengthen financial control or investment planning arrangements, to improve administrative capacities, etc. The failure of an accession country to adhere to these recommendations may result in the negative assessment of its progress towards the adoption of the EU rules and standards, as well as of its readiness to join the EU – something that the political circles of an accession country striving for the EU membership will hardly agree to accept. As a result, the relations between the EU officials directly in charge of the accession and the officials of accession countries may sometimes become the master-agent relations.

In case of the aid programmes, the situation may become similar to the one described in the field of regional policy and the EU structural funds. Although the impact of the EU aid is always positive and the EU rules relating to the management of its programmes enable an accession country to achieve an increased efficiency in the management, as well as to decrease possibilities of fraud, irregularities, or corruption, sometimes these decisions may also decrease the efficiency of the aid packages themselves.

One of the areas very heavily influenced by the European Commission is the **public internal financial control**. The attention of the European Commission to this field increased tremendously after the resignation of the European Commission in the early 2000s, due to the scandals related to the misuse of the Community funds. As a result, all the accession countries have been required to adapt themselves to the newly emerging EC rules, while they were developing in the very EU institutions. The particularly high influence of the single employees of the European Commission on the introduction of public internal financial control rules was exercised because the field was included into the body of acquis communautuire, but "black letter law" instruments in the Community law were very few. The majority of thoughts on how the system was to be organized came from the informal discussions within the European Commission, working papers, written or oral opinions of single reputed sources. Moreover, the instruments were developing in the European institutions at the same time as they were being introduced by the member states and the accession countries. This meant that the rulings and opinions were frequently changing and the accession countries were required to swiftly adapt themselves to the changed circumstances. This, in turn, often meant that the legal basis already introduced and the structures already created had to be quickly dismantled – something that is difficult to do under the national legal systems of some accession countries. According to the informal sources in the Lithuanian Ministry of Finance, the position of the European

Commission has been changing dramatically from the late 1990s, when the introduction of the sound financial management & control, as well as public sector internal financial auditing systems and methodologies began as a part of acquis communautuire. While at the beginning the EU officials were considering single decrees of the Minister a sufficient legal basis for the system's functioning, did not pay a lot of attention to the internationally recognized INTOSAI / EUROSAI standards, rather trying to develop their own, as well as had a restricted approach to the development of the administrative capacities, in 2000-2003 the position has already included the necessity to have "black letter law" instruments, such as national laws or Cabinet decrees stipulating the system and the procedure, a much more rigorous approach was taken to the issue of administrative capacities – strong internal auditing units were required in almost each governmental or semi-public organization with the established minimum number of employees. According to the same sources, the influence of single employees of the European Commission on designing the national policies in these fields is indeed huge in the accession countries. As indicated during interview with an official of the Lithuanian Ministry of Finance, "The European Commission predetermines almost everything. The national authorities just follow the approach taken by the EU. The leading officials of the Lithuanian Ministry of Finance are usually happy with the results of the work of the Ministry's Financial Control Methodology Department when the European Commission officials are happy and vice versa. At the same time, the replacement of single officials within the EC or changes in the current policies of the EC may lead to the pressure to immediately adopt new policies in the accession countries, even though the national legal systems may require several months of preparations and coordination. This is rarely an argument, since the fear to be subjected to the criticism by the EU for the lack of progress compels the governmental employees to take every effort to please the EU officers concerned". [55]

Lets review the fluctuations in the European Commission's and Lithuanian Government's policies in this field in greater detail, taking the period of 1998 – 2004.

At the very beginning of 1998, the approximation of the Lithuanian legislation in the field of public internal financial control was based on the recommendations of the single European Commission's employees and not on any firm legal instruments. The representatives of the European Commission have stated that "It should be remembered – it is difficult to provide for purely objective and measurable yardsticks, as there is no written "acquis" for Chapter 28 [56], only references to "internationally accepted standards of control and audit" and the "best practices" in the member states. The final proof is in the degree of satisfaction that the EU wishes to derive from the candidate countries' efforts to establish sound financial management and control systems for their national income and spending, including EU funds, based on economy, efficiency and effectiveness". [57] As a result, in 1998-1999 the European Commission's employees were assessing the progress in the field of public sector internal financial control by referring to the establishment of the concept of control, the identification of the legal basis, selection of institutions, assurance of their functioning. However, these were just general references. For example, the reference to the "concept" did not have any content, i.e. there were no recommendations as to how this hypothetical concept should look like. Therefore, the accession countries had a space for interpretation.

In the year 2000, more detailed criteria appeared. The following functions were recommended within the field of public internal financial control, i.e. methodological supervision, preemptive financial control, independent internal audit. However, once again, there were no recommendations as to how these functions should be implemented, which principles or procedures should be applied.

In the year 2001, the European Commission's services have entirely changed their previous approach. As a result of the resignation of the European Commission and the events related to the mismanagement of the EU funds, the EC started requiring the effective internal financial control as a separated function and the general attitude to the internal control (the one previously recommended) was declared no longer applicable. In the context of EU accession negotiations, the EC services indicated that the evidence of the accession countries' introducing the recommendations of 1999-2000 is no longer sufficient. An independent review of the public internal financial control was ordered (and carried out by the OECD).

The year 2002 may be declared a turning point of the conceptual change – according to the views expressed by the EC in that year, each accession country was expected to pass a law on internal financial control, adopt internal auditing standards and methodology, ensure the legally separated and independent methodological function (i.e. the necessity to have an independent unit in charge of the internal financial control methodology), to try to decentralize the system. The criteria of the year 1999 – such as the preemptive financial control, performance auditing – were declared relatively unimportant. On the contrary – the international standards and the risk assessment principles were to be accepted as the primary objectives. Thus Hungary and Poland that were regarded as "most advanced" in this field in 1998-2000, now became "lagging behind" and in case of Lithuania the trend was vice versa. The key advantage of Lithuania was that, due to the insufficient clarity of the EU standards, it tried to postpone the adoption of the "black letter law" for which it was harshly criticized in 1998-2001. Some countries that adopted such a legislation were praised. However, those latter countries (Hungary, Poland and some others) adopted their legislation on the basis of the previously applied recommendations and not those that were recommended as of 2001-2002. As a result, these countries have had to dismantle their systems and rules and to create them again, while Lithuania, by being slower than the others, adopted the new model at once.

Another sector, in which the influence of the European Commission may be high, but is much softer is **public administration and civil service**. In this field the democracy criteria have been implemented by Lithuania and many other accession countries already in early or middle 1990s and little room has been left for any EU-inspired reforms. The sector of public administration and civil service is generally not regulated by the European officials, and there are only very few specific legal acts regarding the civil servants. [58] There is, however, one cross-sector issue that the European institutions have always been concerned with – the issue of administrative capacities, especially the administrative capacities to manage the EU affairs. The pressure of the European Union institutions or single officials to increase the administrative capacities in one or another sector has always been significant. In general, this pressure may be considered a positive factor, as otherwise the national authorities would have hardly realized that great improvements are necessary in the personnel dealing with one or another task. However, in some specific cases, the EU officials' recommendations may be quite arbitrary, i.e. how many civil servants are to be employed in a specific unit or area for the capacities to be considered sufficient. For example, the EU officials' requirement to strengthen the planning function in the regional administrations (county governments) of Lithuania has led to a significant increase in the number of personnel in this tier of the government and, although there is no reason why the regional development units in the counties should be incapacitated, subsequently the European institutions changed their mind and began to ignore the administrative capacities at the regional level as a significant factor in determining Lithuania's readiness to absorb the EU structural aid. In 1999-2000 the presence of such staff was, however, considered very important. Contrary to this case, in 2001-2002, the regular pressure of the European officials on the Lithuanian authorities to increase the administrative capacities in the units in charge of the EU structural aid and internal auditing resulted in the actual increase of the administrative capacities that were really necessary for the country. Without the EU pressure, the money-saving approach of the national authorities would have hardly allowed such a considerable progress.

One more sector that is worth mention is the **nuclear energy** sector, as the European Union's position has always been to close the out-dated reactors built during the Soviet times. In this case, however, the influence was exercised rather by the entire EU as a political structure rather than by single European Commission's officials. The national response to these demands was also the politicians' own well realized response, i.e. that the nuclear energy sector must be sacrificed in order to get a positive assessment for the EU membership. These issues were well discussed and realized – thus the typical logic of the master-agent relationship among single civil servants does not apply to this case. The very stance of the EU to necessarily close these objects is, however, quite controversial. On the one side, there are arguments that the reactors build by the USSR are not safe. On the other side, there is hardly sufficient evidence that these reactors may not be exploited safely under certain conditions. The role of single officials both in the EU and the Lithuanian national administration was mostly related to the implementation of the well realized political will.

In other sectors, such as agriculture, transport, internal market, environment the role of the European Commission officials is also related to the interpretation of acquis communautuire and the assessment of the overall country's progress towards the EU membership. The importance of the last factor has significantly decreased after the decision to accept certain accession countries was already taken.

In this paper, the author shall abstain from the assessment of the EC influence in the last two fields (i.e. administrative capacities and the nuclear energy), since empirical examples in these fields would be either too small in scale and might well be attached to other sectoral issues (in case of administrative capacities) or are politically too sensitive (in case of nuclear energy) and cannot be ascribed to the behavior of single civil servants.

3.2.2. The Decisions

The decision to be assessed in this section is related to the changing recommendations of the EC officials on the scope of, structures and the legal basis for the public sector internal auditing, resulting in the necessity to quickly draft new legal acts.

The recommendations of 1998-2000 were ardently pushed forward and, due to the high political influence of the EC employees in the accession countries, they were adopted by Poland, Hungary and some other accession countries. At the same time, they were ignored by Lithuania that understood well the possible consequences of the introduction of the initial approach that looked incoherent. Very importantly, the creation of the public internal financial control services in the countries that adopted the initial approach was accompanied by the staffing designed for the implementation of that approach, as well as by the creation of various statutes and procedures. Thus the subsequent dismantlement of those systems in 2002 onwards was accompanied by the necessity to invest new material resources.

The unit in charge of the public internal financial control methodology – the Financial Control Methodology Department of the Lithuanian Ministry of Finance – was able to withstand the pressure of both the EC and the national politicians/civil servants to adopt the 1998-1999 approach. This approach looked incoherent because it rejected the internationally accepted standards and required to adopt the concept based on very poor justification (the concept that was not theoretically explained or practically applied anywhere else). As already noted, this approach of the Lithuanian civil servants caused very poor official opinions of the European Commission on the progress towards accession in the field of financial control. In the 1999 and 2000 annual progress reports the progress in this field was considered virtually non-existent. Therefore this example (the initial decisions and recommendations put forward in 1998-2000 and the clear shift to a different concept in 2001-2002) serves as a good illustration of the great influence that the EC employees had on the Lithuanian policies.

3.2.3. The Assessment of the EU Influence

In the field of the public sector internal auditing, the EU influence was, of course, generally positive, as Lithuania and a number of other accession countries were lacking the effective control over the governmental financial resources, as well as over actions. It shall not be an exaggeration to say that the public sector internal control and internal auditing services in Lithuania appeared directly as a consequence of the European Union's policy demands. However, the EU – Lithuanian civil servants' relations indeed represent the challenging case of EU policy impact. The national actions were almost always moving along the policy demands of the EU officials. This created an unstable policy making environment. Thus, although the very impact was positive, the path followed to achieve the final outcome (in 2003-2004) could have been much less painful.

3.2.4. The Actors and Outcomes

While in the case of EU structural funds and regional development there was a wide range of actors involved in decision making (due to the high material importance of the sector), in the field of public sector internal financial control the general public, the media, and the interest groups generally had a very limited interest in the policy outcomes. The outcomes concerned primarily, if not exclusively, the governmental sector.

The **civil servants directly in charge** of the issues basically followed the same lines of behavior as in the case of regional policy. They had to follow the remarks of the EC employees in charge of the public internal financial control. They also faced the same problems – any negative remarks by the EC employees used to cause turmoils, dissatisfactory assessments of work results by the executives of the Ministry of Finance and sometimes – by the politicians.

The **civil servants working in other ministries** (not directly concerned with the policy area) were participating in the processes with a considerable passivity, as the issues of financial control methodology were of their concern, but had considerably less material and political implications than the EU Structural Funds.

The same can be said about **politicians.** However, the Budget Committee of the Lithuanian Parliament was directly concerned with the issues of the public sector internal auditing and the controversy between the instructions from the EU and the opinions of the national politicians was sometimes occurring. However, in general, the politicians tended to be between the EC and the civil servants, requiring both the implementation of their own views and the adherence to the European Commission employees requirements.

The **interest groups** and the **media** have shown a limited interest in the sector, as already noted above.

Finally, the **European Commission services** were regularly monitoring the progress. They were frequently changing their own standards and requiring the accession countries to do the same.

3.2.5. The Analytical Conclusion

The case of the public internal financial control can be considered proving the same lines of behavior as the case of regional policy did, but on a lower scale. This lower scale can well be explained by the fact that various decision making stakeholders were considerably less personally concerned with the policy outcomes than in the first case. Due to this reason, the "penalties" for national civil servants for the criticism on the EU's side have been lower. In general, the cases presented in this sub-section demonstrate that the master – agent relationship between the EU and national civil servants of the accession countries exists not only in the field of regional policy and the EU structural funds (a vital area of the EU's influence on the national economy), but also in other fields.

4. Policy Recommendations

What could be the policy recommendations?

Of course, such a general staff as a call for increase of material incentives in the civil service, increase in its professionalism, better explanatory campaigns… Why not? Although somebody may be sceptical about that, one should also note that the West European governments demonstrate a better ability to negotiate, to present arguments in a professional way.

On the other hand, what should not be recommended, is an attempt to get rid of personal self-interest among the actors of decision making – this, according to theory, is not possible. Even a general theoretical presumption – that decision making shall be insulated from outside influences if the government becomes more autonomous (i.e. disallows 'outside influences' to occur) should be juxtaposed with the theoretical advantages of 'policy networks' approach. The 'closure' of the government may insulate it from corruption, but it is not the corruption that caused the problem in question, but rather the lack of knowledge, capacities and, possibly, strong national leadership. These circumstances surrounded the appearance of a particular setting of personal and institutional interests (also self-interest) that caused a policy failure. These factors can not be optimised by introducing more government autonomy.

There may therefore be two alternative approaches: 1. 'To wait and see' – i.e. to hope that the private experts' market will soon be saturated, the difference in remuneration between civil servants and experts will fall providing more prestige for work in the government, more knowledge will be acquired by various decision makers. 2. To intervene either by further toughening control arrangements from the EU's side, or by offering better material incentives to the civil servants, alongside with toughening control arrangements, professional requirements.

Importantly, at least in Lithuania, material incentives cannot be offered, since they are strictly regulated in the Civil Service Act. Controls on the EU's side are tough enough and further increase may not bring sustainable results. Any other types of interventions may bring some positive results, but may also result in unneccessary punishments or further demotivation in the civil service (since the system is not able to identify and punish those who are guilty of the phenomenon, but is more likely to shift blame on those working hardest).

A good step, at least in Lithuania, was the transfer of overall responsibility for the Structural Funds' management to the Ministry of Finance which is a relative 'efficiency island' in terms of personnel selection and their professionalism. Although not all 'evils' of civil service can be considered non-existent even there, its performance seems to be much better than that of other governmental institutions. This could therefore be the best approach for the present time – the reliance on selected (administratively and professionally strong) institutions and the placement of overall responsibility for the EU structural funds on such 'efficiency islands'. Other factors, such as training, strong leadership also matter, but are unsustainable in a long run – leaders, unless they are career employees in relatively strong 'efficiency islands' inevitably change due to political instability, and training cannot bring a decisive progress due to low remuneration – a trained personnel tends to leave the government.

These factors would allow to soften the consequences of the low ability of national civil servants to make a professional judgment (i.e. when high ranked civil servants are not in possession of sufficient expertise and are not able to objectively assess whether the EC demands are justified). However, they would not enable to overcome the syndrome of "master-agent" relations between single EC employees and the medium ranked civil service professionals in the accession countries. For such relations to be mitigated, it would be necessary to raise the awareness of all the policy making actors concerned on the circumstances surrounding the policies. More training and explanation, more seminars and workshops could be a good solution.

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8. Council Regulation No. 1260/1999 of 21.06.1999 "laying down general provisions on the Structural Funds".
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Interviews:

No special interviews were conducted for this paper. However, previously collected interview material was used. Interviewees included:

1. Mr. Grybauskas, A., Deputy Director, Regional Development Department, Lithuanian Ministry of Interior.
2. Mr. Gudynas, M., Regional Development Attache, Lithuanian Mision to the European Community.
3. Mr. Krispinovicius, S., Head of Regional Policy Division, Regional Development Department, Lithuanian Ministry of Interior.
4. Mr. Linartas, R., Head of EU Structural Aid Division, Lithuanian Ministry of Finance.
5. Mr. Jensen, P., Deputy Head of Unit G3, DG 'Regional Policy', European Commission (as well as other employees of the unit).
6. Mr. Matusevicius, D., Director of the Financial Control Methodology Division of the Lithuanian Ministry of Finance.
7. The personal experience of the paper's author, who worked as Head of the Regional Policy Coordination Division of the Lithuanian Ministry of Public Administration Reforms and Local Authorities in 1999-2000, Head of the National Development Planning Division of the Lithuanian Ministry of the Interior in January-February 2001, and Administrative trainee of the European Commission's DG 'Regional Policy' in March-July 2001, was used to ground the conclusions of the paper.

Footnotes

[1] This sentence is meant to indicate that there should be distinguishing between international relations and behavioural aspects at the civil servant level. This paper is concerned only with the second type of transactions.

[2] This passage is based on Kickert, Klijn, Koppenjan, 1997.

[3] While it is not necessarily and not always true, it is often considered that autonomous government is better insulated from the private groups' influence, and the insulation disallows the government to become the agent, and the private sector – the principal. However, it must also be recognised that in this case the government may misuse public funds for other reasons.

[4] Evans, 1992.

[5] Moe, 1995, page 138.

[6] This sub-section is based on the results of previous unpublished research (the Masters dissertation in the London School of Economics), supplemented with the current research of the author of this paper. A lot of materials were used from the author's work in the Lithuanian Ministry of Interior, the European Commission, as well as studies in the London School of Economics.

[7] This position is advocated, among others, by Armstrong and Taylor, in chapter 12 of 'Regional Economics and Policy', 2000. The authors assert that full devolution of economic powers is not a realistic option.

[8] The period refers to 1998-2000.

[9] In 1999-2000, Lithuania and some other East European accession countries were about to squeeze all EU structural aid to the framework of national regional development policies. However, since these EU funds require national co-financing, the total share of national public investment that could have been 'regionalized' if these schemes succeeded could have totalled 50-70% of all available public investment.

[10] The approach was unsound because of several reasons. Firstly, it was against the EU structural funds' rules to launch the country's preparations for the EU structural funds on the regional basis. Secondly, it was against the economic logic to offer such huge amounts of aid of limited designation to the regions having very limited absorption capacities.

[11] The civil servants directly in charge of the Lithuania's preparations for the EU structural funds new in advance that the implementation of such a policy scheme shall result in a failure. They, however, did not take any action.

[12] Article 1 of the Council Regulation No. 1260/1999 of 21 June 1999.

[13] Article 7 of the Council Regulation No. 1260/1999 of 21 June 1999.

[14] In Lithuania, the annual amounts received from these sources make up ~ 100 million Euro while the national budget makes up ~2 billion Euro. Thus the structural pre-accession support amounts to 5% of the national budget and a very significant share of its investment allocations.

[15] According to the EU, ISPA is a prototype of the Cohesion Fund, SAPARD – of the European Agricultural Guidance and Guarantee Fund (Guidance Section), PHARE Economic and Social Cohesion Initiative – of the European Regional Development Fund and the European Social Fund.

[16] All regions in which GDP per capita is less than 75% of EU average are considered eligible for 'Objective I' support.

[17] For example, in Roar Amdam's article 'Sectoral Versus Regional Planning and Development in Norway', European Planning Studies, Vol. 10, No. 1, 2000, it is argued that in

Norway a distinguishment is made between ‘narrow’ and ‘broad’ regional policy, the ‘broad’ one meaning the intended or unintended impact of sector development plans on regional economies.
[18] Regulation No. 1260/1999 laying down general provisions on the structural funds.
[19] In this regard, it should be noted that not only were actions limited to vocational training and business advice, but they had to exclude any measures of agricultural designation while most of the selected Lithuanian regions’ value added was related to agriculture. Moreover, these measures, having no or little demand, had to be significantly part-financed by both the national government and by the private business entity. The scale of the problem might be perceived when comparing all national allocations for such purposes in these selected regions with those that were to be made available from PHARE. The difference was up to 100-200 times!
[20] Those parts related to the European Regional Development Fund and the European Social Fund only; the other EU structural funds and the Cohesion Fund were dealt with by other EU directorates and followed the national approach from the very beginning.
[21] Unfortunately, the manuscript if Kalman, J, 2001 is silent on how many regions are actually receiving PHARE support.
[22] Popa, A. et al, page 11.
[23] Besides oral recognition expressed during various meetings in late 2000, the failure was also acknowledged during the twinning seminar on 15-16 March 2002.
[24] Under the initial provisions of the Lithuanian PHARE ESC, 14 million Euros were allocated just for business consultancy and vocational training of NON AGRICULTURAL DESIGNATION for three most agriculturalized Lithuanian counties. Not only did these amounts 50-150 times exceeded similar governmental aid in previous years, but business entities were expected to contribute 20-50% to the total expenses – something that they were not going to do according to unofficial surveys.
[25] Similar forecasts and complaints were also coming from other East European ministries.
[26] For instance, in Lithuania the Regional Development Agencies were set up in each county, with the expectation that they will be the key players in the management of the EU Structural Funds. Soon it appeared that they may have no role in this function.
[27] Lasuen, 1972, page 20.
[28] Lasuen, 1972.
[29] According to Lasuen, 1972.
[30] Armstrong, Taylor, 2000.
[31] Higgins, Savoir, 1995, page 76.
[32] Higgins, Savoir, 1995.
[33] Higgins, Savoir, 1995.
[34] Higgins, Savoir, 1995, page 44.
[35] Higgins, Savoir, 1995, page 58.
[36] Friedman, 1972.
[37] Lasuen, 1995, page 36-37.
[38] Armstrong, Taylor, 2000.
[39] Rodwin, 1972, page 13.
[40] Armstrong, Taylor, 2000.
[41] Armstrong, Taylor, 2000.
[42] These approaches were presented by Armstrong and Taylor as options for combating unemployment. Although other indicators (not necessarily unemployment) can show region’s

backwardness too, the proposed measures are focused on the view that unemployment is the major indicator of regional development.
[43] This presumption is based on the author's own experience as Head of Regional Policy Coordination Division in the Lithuanian Ministry of Public Administration Reforms and Local Authorities.
[44] The author of this paper is not aware of more than 3 or 4 cases when somebody was accepted to the Lithuanian Ministry of Public Administration Reforms and Local Authorities on the basis other than protectionism, in 1998-2000.
[45] In Lithuania, such cases included the demands to allocate a significant amount of PHARE development related funds for renovation of police office premises, to allocate specific amounts of money for ineligible purposes, specific reasons, etc.
[46] Such cases are very numerous in Lithuania. In 1999-2001, a number of Prime-Minister's and Government Chancellor's decrees were issued requiring to investigate the lack of progress or various accusations of NGOs and sector ministries. Even if the case could have been proven, such decrees used to demotivate the staff and to increase the burden of administrative duties. In some other countries, the staff in charge of the funds was ultimately fired (Poland, for example).
[47] This was the case in Lithuania.
[48] This sentence has nothing to do with the presently working employees of the DG 'Enlargement' and should not be associated with them.
[49] In Hungary and Poland, the whole personnel in charge of PHARE either left or was dismissed in late 1990s. In lithuania, ALL personnel in charge of PHARE ESC and preparations for the EU aid left in 2000. Personal conversations conducted by myself with the personnel in the Lithuanian Ministry of Finance and Ministry of Interior suggest that the willingness to leave the service is still high.
[50] While examples are many, the best example in Lithuania was in late 1999, when the Governmental European Integration Commission approved the draft National Development Plan for the EU pre-accession funds without reading it (it was distributed only 2 days in advance and was not even translated to the Lithuanian language), despite a lot of critical remarks. The reason of approval was a referral to an e-mail opinion of Mr. J.Trestour, then Head of Unit in the European Commission's DG 'Enlargement' saying that 'the plan is good'.
[51] The circumstances were that the DG "Enlargement" officials were rarely willing to negotiate and the attempts to refute the suggestions could well have resulted in serious consequences, such as the rejection or delays in the approval of the aid, or the threats to do so. Being unaware of this (or disbelieving in this), decision makers and interest groups frequently required things that the EC would never accept, but tended to blame the national civil servants in cases when the EC was unhappy with some position or provisional result.
[52] As Head of Regional Policy Coordination Division of the Lithuanian Ministry in charge of regional development, I can assert that the scale of problems that will be caused by the acceptance of these policy demands was well understood by myself and other colleagues in the unit. During my discussions with civil servants from Poland and Hungary, it was revealed that they have similar problems.
[53] This presumption is made on the basis of the personal experience of the author of this paper who was himself in charge of the Lithuanian preparations for the EU structural funds.
[54] See Raagmaa, 2001, for the justification of the role of a leader in the process of economic transformation.

[55] Interview with Mr. Darius Matusevicius, Director of the Financial Control Methodology Department of the Lithuanian Ministry of Finance.
[56] Chapter 28 refers to the EU accession negotiations, Chapter "Financial Control".
[57] According to Mr. Darius Matusevicius, Director of the Financial Control Methodology Department of the Lithuanian Ministry of Finance.
[58] However, the specific EU aid was provided also for adopting the civil service legislation and, according to the sources in the European Commission, it was the EU that tried to convince the Lithuanian authorities to adopt the Civil Service Act, even though this was not a part of the EU acquis and generally not of EU's concern. This influence may, however, not be regarded as negative; it may be considered a soft policy advice – probably a useful step in the development of the stable and reliable civil service in the country.